

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0935-01
Bill No.: HB 409
Subject: Retirement - Schools; Teachers
Type: Original
Date: February 23, 2011

Bill Summary: This proposal creates the defined contribution plan for teachers who are hired on or after July 1, 2013

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

The **Joint Committee on Public Retirement** indicates that this legislation does represent a “substantial proposed change” in future plan benefits as defined in Section 105.660(5). Therefore, an actuarial cost statement as defined in Section 105.665 must be provided prior to final action on this legislation by either legislative body or committee thereof.

Pursuant to Section 105.670, this actuarial cost statement must be filed with 1) the Chief Clerk of the Missouri House of Representatives, 2) the Secretary of the Senate and 3) the Joint Committee on Public Employee Retirement as public information for at least (5) legislative days before final passage of the bill.

An actuarial cost statement for this legislation has been filed with the Joint Committee on Public Employee Retirement.

Officials from the **Public School Retirement System of the School District of Kansas City** assume there will be no fiscal impact to their agency.

Officials from the **Public School Retirement System (PSRS)** assume this proposal specifies that all new hires effective July 1, 2013 for PSRS will have an option to choose a defined contribution plan. The contribution rate to the defined contribution plan must be at least 7.5% but the employee is not required to make contributions. There are other requirements for employer contributions which are tied to the contribution rate of the current defined benefit plan. An employee can contribute any amount up to the maximum annual contribution allowed by federal law.

Benefits under PSRS for employees hired prior to July 1, 2013, are not impacted directly by this proposal. This proposal also will not reduce the current PSRS benefit obligations. As a result, this proposal would have a substantial financial impact on the amortization of the unfunded actuarial accrued liability (UAAL).

Based upon the actuarial cost study, should their annual limitation cap not be removed from statute, their current defined benefit plan would become insolvent by 2044.

Oversight assumes there could be additional costs however the cost is unknown. It is unclear if employees hired on or after July 1, 2013 would have the option of participating in the current defined benefit plan or the new plan. Also, employees hired on or after July 1, 2013 will automatically become members of the defined contribution plan unless they elect, during the first

12 months of employment, to participate in the current defined benefit plan. Also, current PSRS participants are not covered by Social Security, employees who elect to participate in the defined contribution plan are likely to be covered by Social Security. This would require these employees and their employers to each contribute 6.2% of salary to social security.

The proposal also indicates employers will continue to pay half of the overall contribution rate for members who participate in the defined benefit plan. Employer contributions to the new defined contribution plan are based on the level of employer contributions to the current defined benefit plan. It is possible that most new employees hired on or after July 1, 2013 would choose to participate in the defined contribution plan because of the flexibility for employees to contribute or not contribute to the defined contribution plan, while still receiving an employer contribution.

The actuary has also indicated the change would be implemented with the 6/30/11 valuation since it would be prudent to implement as soon as the proposal is passed and not wait until the defined contribution plan becomes an option for new hires.

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
---	---------------------	---------	---------

LOCAL SCHOOL RETIREMENT SYSTEMS

<u>Cost</u> - Contribution to Defined Contribution Plan	\$0 to (Unknown greater than <u>\$100,000</u>)	\$0 to (Unknown greater than <u>\$100,000</u>)	\$0 to (Unknown greater than <u>\$100,000</u>)
---	---	---	---

**ESTIMATED NET EFFECT ON
LOCAL SCHOOL RETIREMENT
SYSTEMS**

**\$0 to
(Unknown
greater than
\$100,000)**

**\$0 to
(Unknown
greater than
\$100,000)**

**\$0 to
(Unknown
greater than
\$100,000)**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

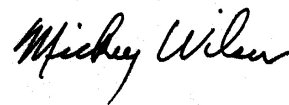
FISCAL DESCRIPTION

The proposed legislation creates the defined contribution plan for teachers who are hired on or after July 2, 2013.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Joint Committee on Public Employee Retirement
Public School Retirement System of the
School District of Kansas City
Public School Retirement System of Missouri



Mickey Wilson, CPA

L.R. No. 0935-01
Bill No. HB 409
Page 6 of 6
February 23, 2011

Director
February 23, 2011

VL:LR:OD (12/02)